

Comments on NCUA ANPR for Part 704

Role of Corporates in the System

Corporate Credit Unions must be allowed to offer a full line of account services, payment services, short-term and intermediate-term investments, and lending options. Separate charters will negate the value of the individual Corporates being able to provide a variety of services. Our credit union needs both payment services and short-term cash management products to facilitate efficient operations. Each Corporate should be able to decide on their own what services they want to offer in-house and which ones to be processed by outside vendors.

Individual Corporates should not have restrictive FOM's in their charter. Natural-person credit unions should be able to join and do business with any Corporate of their choice. Membership capital requirements to do business with a Corporate should not be based on assets, but instead on the average value of balances maintained. Credit unions that use more services would have a larger "investment" in the Corporate. If a credit union wants to make a simple investment through a Corporate, they should be allowed to do so without a restrictive capital requirement. A member credit union should be permitted to switch primary services to a different Corporate with a reasonable period of advance notice (like 90 days).

The two-tiered system should gradually be replaced with one tier. There should be a minimum of 10 to 15 Corporates for credit unions to consider using. Having fewer than 10 Corporates does not provide a sufficient selection of services offered. Some Corporates may decide to out-source certain services to another Corporate if it is more effective and profitable for them to do so.

Corporate Capital

Corporate Credit Unions must have a higher core capital requirement than 4%. I would think that a minimum of 6% might be acceptable, or even higher if the Corporate was involved in any risky ventures. Core capital should not include membership capital. Access to core services should not be restricted to credit unions unable to contribute full membership capital share positions. Fees need to be developed to compensate the Corporate for member credit unions that do not fully participate in membership capital (based on average balances, not assets). Credit unions must be permitted to establish relationships with "secondary" Corporates. Risk-based capital regulation should be implemented. If the NCUSIF has to support these organizations, then they should be putting away more income for the unknown market devaluation.

Permissible Investments

Corporate Credit Unions should have the ability to make investments that would be too risky for a natural-person credit union. There needs to be a significant analysis of the possible risk of loss associated with unusual investments. Some "new" investment types however are way too risky for even a Corporate to make, and need to be restricted. As we have discovered, CDO's, NIM's and subprime asset-backed securites have not maintained anything close to their perceived market value. Some outside third-party needs to analyze these investment vehicles before a Corporate is allowed to proceed.

Credit Risk Management

Corporate Credit Unions may have relied too much on one rating agency for critical credit risk evaluation. Possibly using more than one agency will help in the future, but most important is an

analysis of the underlying collateral in the investment pool. It may be difficult to regulate how this is to be accomplished, but independent evaluations may uncover weaknesses in the investment scope. Consideration may have to be given to restricting the amount of assets that can be devoted to different investment “types” to avoid excess concentration on one “new” investment. Safety of the principal should be the objective of general investments for others. Credit unions do not want to see their hard-earned retained earnings disappear every few years.

Asset Liability Management

Net interest income modeling and stress testing should probably be reinstated. Other tests such as net economic value (NEV) and value at risk (VAR) should also be considered for the Corporates. Testing for credit spread increases should also be required. Regulations listing which tests to apply to which investment type would be too restrictive and may not even be effective, but suggestions could be made about what testing concepts need to be considered by the Corporates.

Corporate Governanace

Directors serving on a Corporate’s Board should have minimum qualifications such as education or work experience with a credit union or both. Training can be used to update any person who needs additional educational help. I like the concept of “outside directors” but they need some prior or current connection with a natural-person credit union, and not be strangers to the movement. It would be nice if at least 20% to 30% of a Corporate’s directors be outsiders. No director should serve for more than 15 years as a term limit and no Corporate director should be compensated, other than expenses to attend the meetings. The directors of regular natural-person credit unions are not compensated, and they could serve as knowledgeable additions to the Corporate Boards. There is no reason that member credit unions need to know the salary and benefits paid to the senior management of any Corporate Credit Union. I am not in favor of the NCUA consideration of a requirement that natural-person credit unions release the salary and benefits of their senior management, either.

Comments by:	Robert Doty, Manager
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Established:	September 27, 1963
Common Bond:	Employees of Chicago Bridge & Iron Co.
Number of Members:	1,500
Assets:	\$15.0 million
Loans:	\$ 6.5 million
Funds at Corporate:	\$ 2.0 million
Date of Comments:	April 6, 2009